APPENDIX F.
Fair Housing

APPENDIX F.
Fair Lending/Housing Report

This appendix contains an analysis of home loan data, recent Indiana fair housing legislation, Indiana's high mortgage foreclosure rate, and federal fair housing cases, which collectively highlight recent fair lending and fair housing concerns in the State. The section also contains information about recent fair housing activities funded by the State.

Home Mortgage Disclosure Act (HMDA) Data Analysis

HMDA data consist of information about mortgage loan applications for financial institutions, savings and loans, savings banks, credit unions and some mortgage companies.[1] The data contain information about the location, dollar amount, and types of loans made, as well as racial and ethnic information, income, and credit characteristics of all loan applicants. The data are available for home purchases, loan refinances, and home improvement loans.

HMDA data can provide a picture of how different applicant types fare in the mortgage lending process. These data can be used to identify areas of potential concern that may warrant further investigations. For example, by comparing loan approval rates of minority applicants with non-minorities that have similar income and credit characteristics, areas of potential discrimination may be detected.

The Federal Reserve is the primary regulator of compliance with fair lending regulations. When federal regulators examine financial institutions, they use HMDA data to determine if applicants of a certain gender, race or ethnicity are rejected at statistically significant higher rates than applicants with other characteristics. The Federal Reserve uses a combination of sophisticated statistical modeling and loan file sampling and review to detect lending discrimination.

The HMDA data tables in this section present summary HMDA data for six of Indiana's smaller Metropolitan Statistical Areas (MSA). (HMDA data are not available for small areas in the State of for the State overall). The areas included are: Bloomington MSA, Elkhart-Goshen MSA, Kokomo MSA, Lafayette MSA, Muncie MSA and Terre Haute MSA. It should be noted that discriminatory practices cannot be definitively identified from a review of aggregate HMDA data. Lending discrimination tests require detailed statistical analyses and comparative tests of individual loan files. However, examinations of denial rates and general applicant characteristics can suggest areas for further examination.

[1] Financial institutions are required to report HMDA data if they have assets of more than $32 million, have a branch office in a metropolitan area, and originated at least one home purchase or refinance loan in the reporting calendar year. Mortgage companies are required to report HMDA if they are for-profit institutions, had home purchase loan originations exceeding 10 percent of all loan obligations in the past year, are located in an MSA (or originated five or more home purchase loans in an MSA) and either had more than $10 million in assets or made at least 100 home purchase or refinance loans in the calendar year.

Loan applications and action taken. The most recent HMDA data available are for the 2002 calendar year. During 2002, there were 2,908 government guaranteed home mortgage loan applications made in the six MSAs and 13,588 conventional loan applications.

Eighty-one percent of the applications for government guaranteed loans were originated and 8 percent of these applications were denied. Conventional home purchase loans had an origination rate of 72 percent with 14 percent of the applications denied. (Higher origination rates for government guaranteed loans are typical, since these loans provide more flexible underwriting standards).

Approval rates by race and income. HMDA data are also available by race and income for the six small Indiana MSAs. Approval rates on government-backed and conventional mortgage loans are shown in Exhibits F-1 and F-2.

As would be expected, approval rates tend to increase as incomes rise. Applicants who were Native American and where race was not available showed the lowest approval rates for low income categories and total applicants for conventional loans. Whites and Asians had the highest approval rates for conventional loans, and approval rates for African Americans and Hispanics tended to be lower than Whites across income categories. For government guaranteed loans, approval rates were similar for race and ethnic categories.

Exhibit F-1.
Government Guaranteed Home Mortgage Loan Origination Rates by Race/Ethnicity and Income, Indiana Small MSAs, 2002

Low Income Applicants (<80% of Median)

Race/Ethnicity	Bloomington MSA		Elkhart-Goshen MSA		Kokomo MSA		Lafayette MSA		Muncie MSA		Terre Haute MSA		Total of Six MSAs	
	% Loans Originated	Apps Received	% Loans Originated	Apps Received	% Loans Originated	Apps Received	% Loans Originated	Apps Received	% Loans Originated	Apps Received	% Loans Originated	Apps Received	% Loans Originated	Apps Received
American Indian/ Alaskan Native	N/A	0	100%	1	N/A	0	N/A	0	N/A	0	N/A	0	100%	1
Asian/Pacific Islander	50%	2	N/A	0	100%	1	100%	5	100%	1	N/A	0	89%	9
African American	0%	1	82%	11	89%	9	72%	18	75%	8	100%	3	78%	50
Hispanic	100%	4	82%	114	100%	8	77%	66	100%	2	N/A	0	82%	194
White	68%	132	75%	293	83%	269	81%	406	85%	189	87%	180	80%	1,469
Other	N/A	0	N/A	0	100%	4	100%	1	N/A	0	N/A	0	100%	5
Joint	0%	2	83%	6	100%	2	90%	10	100%	1	N/A	0	81%	21
Not Available	33%	3	65%	20	71%	21	68%	34	69%	13	60%	10	66%	101
Total	**67%**	**144**	**77%**	**445**	**83%**	**314**	**80%**	**540**	**84%**	**214**	**85%**	**193**	**80%**	**1,850**

Moderate, Middle and Upper Income Applicants (80% of Median or Greater)

Race/Ethnicity	Bloomington MSA		Elkhart-Goshen MSA		Kokomo MSA		Lafayette MSA		Muncie MSA		Terre Haute MSA		Total of Six MSAs	
	% Loans Originated	Apps Received	% Loans Originated	Apps Received	% Loans Originated	Apps Received	% Loans Originated	Apps Received	% Loans Originated	Apps Received	% Loans Originated	Apps Received	% Loans Originated	Apps Received
American Indian/ Alaskan Native	N/A	0	N/A	0	N/A	0	N/A	0	0%	1	100%	1	50%	2
Asian/Pacific Islander	N/A	0	100%	1	100%	1	75%	4	100%	2	N/A	0	88%	8
African American	67%	3	100%	1	80%	15	88%	8	78%	9	50%	4	78%	40
Hispanic	100%	2	100%	13	67%	3	88%	8	N/A	0	100%	2	93%	28
White	81%	113	83%	126	82%	136	84%	233	86%	144	89%	132	84%	884
Other	N/A	0	N/A	0	67%	3	50%	2	N/A	0	N/A	0	60%	5
Joint	100%	3	50%	4	100%	2	86%	7	50%	2	80%	5	78%	23
Not Available	82%	11	33%	9	67%	9	95%	21	38%	8	60%	10	69%	68
Total	**82%**	**132**	**81%**	**154**	**80%**	**169**	**84%**	**283**	**83%**	**166**	**86%**	**154**	83%	1,058

Total Applicants

Race/Ethnicity	Bloomington MSA		Elkhart-Goshen MSA		Kokomo MSA		Lafayette MSA		Muncie MSA		Terre Haute MSA		Total of Six MSAs	
	% Loans Originated	Apps Received	% Loans Originated	Apps Received	% Loans Originated	Apps Received	% Loans Originated	Apps Received	% Loans Originated	Apps Received	% Loans Originated	Apps Received	% Loans Originated	Apps Received
American Indian/ Alaskan Native	N/A	0	100%	1	N/A	0	N/A	0	0%	1	100%	1	67%	3
Asian/Pacific Islander	50%	2	100%	1	100%	2	89%	9	100%	3	N/A	0	88%	17
African American	50%	4	83%	12	83%	24	77%	26	76%	17	71%	7	78%	90
Hispanic	100%	6	84%	127	91%	11	78%	74	100%	2	100%	2	83%	222
White	74%	245	78%	419	83%	405	82%	639	86%	333	88%	312	82%	2,353
Other	N/A	0	N/A	0	86%	7	67%	3	N/A	0	N/A	0	80%	10
Joint	60%	5	70%	10	100%	4	88%	17	67%	3	80%	5	80%	44
Not Available	71%	14	55%	29	70%	30	78%	55	57%	21	60%	20	67%	169
Total	**74%**	**276**	**78%**	**599**	**82%**	**483**	**81%**	**823**	**83%**	**380**	**86%**	**347**	**81%**	**2,908**

Note: N/A means no applications were received.
Median household income refers to the MSA's median household income.

Source: FFIEC HMDA Aggregate Reports, 2002, and BBC Research & Consulting.

Exhibit F-2.
Conventional Home Mortgage Loan Origination Rates by Race/Ethnicity and Income, Indiana Small MSAs, 2002

Low Income Applicants (<80% of Median)

Race/Ethnicity	Bloomington MSA		Elkhart-Goshen MSA		Kokomo MSA		Lafayette MSA		Muncie MSA		Terre Haute MSA		Total of Six MSAs	
	% Loans Originated	Apps Received	% Loans Originated	Apps Received	% Loans Originated	Apps Received	% Loans Originated	Apps Received	% Loans Originated	Apps Received	% Loans Originated	Apps Received	% Loans Originated	Apps Received
American Indian/ Alaskan Native	0%	1	50%	2	50%	2	0%	4	20%	5	N/A	0	21%	14
Asian/Pacific Islander	56%	9	62%	21	0%	1	67%	9	50%	4	67%	6	60%	50
African American	67%	6	50%	26	45%	11	56%	9	43%	23	42%	19	48%	94
Hispanic	57%	7	61%	123	100%	4	59%	68	71%	7	67%	3	61%	212
White	68%	583	70%	1,177	69%	661	76%	837	70%	562	64%	791	70%	4,611
Other	71%	7	25%	4	40%	5	40%	5	75%	4	80%	5	57%	30
Joint	50%	2	50%	10	71%	7	60%	15	75%	4	50%	4	60%	42
Not Available	26%	96	25%	208	33%	89	25%	134	30%	97	27%	122	27%	746
Total	**62%**	**711**	**63%**	**1,571**	**65%**	**780**	**68%**	**1,081**	**63%**	**706**	**59%**	**950**	63%	5,799

Moderate, Middle and Upper Income Applicants (80% of Median or Greater)

Race/Ethnicity	Bloomington MSA		Elkhart-Goshen MSA		Kokomo MSA		Lafayette MSA		Muncie MSA		Terre Haute MSA		Total of Six MSAs	
	% Loans Originated	Apps Received	% Loans Originated	Apps Received	% Loans Originated	Apps Received	% Loans Originated	Apps Received	% Loans Originated	Apps Received	% Loans Originated	Apps Received	% Loans Originated	Apps Received
American Indian/ Alaskan Native	100%	2	100%	1	N/A	0	100%	2	100%	1	0%	2	75%	8
Asian/Pacific Islander	80%	25	86%	14	100%	10	91%	35	88%	8	100%	9	89%	101
African American	56%	16	60%	25	82%	28	50%	10	73%	30	64%	22	67%	131
Hispanic	100%	4	66%	44	75%	4	59%	22	100%	1	50%	6	65%	81
White	77%	1,048	84%	1,262	83%	824	85%	1,356	80%	926	76%	1,150	81%	6,566
Other	82%	11	71%	7	50%	4	85%	13	71%	7	82%	11	77%	53
Joint	91%	34	94%	34	80%	5	79%	34	57%	14	86%	14	84%	135
Not Available	65%	111	46%	105	58%	93	63%	150	47%	92	44%	133	54%	684
Total	**77%**	**1,251**	**80%**	**1,492**	**80%**	**968**	**82%**	**1,622**	**77%**	**1,079**	**73%**	**1,347**	78%	7,759

Total Applicants

Race/Ethnicity	Bloomington MSA		Elkhart-Goshen MSA		Kokomo MSA		Lafayette MSA		Muncie MSA		Terre Haute MSA		Total of Six MSAs	
	% Loans Originated	Apps Received	% Loans Originated	Apps Received	% Loans Originated	Apps Received	% Loans Originated	Apps Received	% Loans Originated	Apps Received	% Loans Originated	Apps Received	% Loans Originated	Apps Received
American Indian/ Alaskan Native	67%	3	67%	3	50%	2	33%	6	33%	6	0%	2	41%	22
Asian/Pacific Islander	74%	34	71%	35	91%	11	86%	44	75%	12	87%	15	79%	151
African American	59%	22	55%	51	72%	39	53%	19	60%	53	54%	41	59%	225
Hispanic	73%	11	62%	167	88%	8	59%	90	75%	8	56%	9	62%	293
White	74%	1,631	77%	2,439	77%	1,485	81%	2,193	76%	1,488	71%	1,941	76%	11,177
Other	78%	18	55%	11	44%	9	72%	18	73%	11	81%	16	70%	83
Joint	89%	36	84%	44	75%	12	73%	49	61%	18	78%	18	79%	177
Not Available	47%	207	32%	313	46%	182	45%	284	38%	189	36%	255	40%	1,430
Total	**71%**	**1,962**	**71%**	**3,063**	**73%**	**1,748**	**76%**	**2,703**	**71%**	**1,785**	**67%**	**2,297**	**72%**	**13,558**

Note: N/A means no applications were received.

Median household income refers to the MSA's median household income.

Source: FFIEC HMDA Aggregate Reports, 2002, and BBC Research & Consulting.

Denial rates by race and income. Exhibits F-3 and F-4 on the following pages present *denial* rates by race and ethnicity, categorized by income level and loan type for the six MSAs. It is important to note that the number of loan applications were relatively small for the following groups: American Indian/Alaskan Native, Asian/Pacific Islander, the "Other" category and the "Joint" category. As such, caution should be used in interpreting data about these racial and ethnic groups.

For government guaranteed home purchase loans, as shown in Exhibit F-3, applicants where race was not available, applicants of joint race and African Americans had the highest denial rates of 12 to 15 percent. Among low-income applicants, applicants where race was not available had the highest denial rates (18 percent), followed by applicants with joint race (14 percent). African American applicants had the highest denial rate among higher income applicants (18 percent).

Exhibit F-3.
Government Guaranteed Home Mortgage Loan Denial Rates by Race/Ethnicity and Income, Indiana Small MSAs, 2002

Low Income Applicants (<80% of Median)

Race/Ethnicity	Bloomington MSA % Loans Originated	Bloomington MSA Apps Received	Elkhart-Goshen MSA % Loans Originated	Elkhart-Goshen MSA Apps Received	Kokomo MSA % Loans Originated	Kokomo MSA Apps Received	Lafayette MSA % Loans Originated	Lafayette MSA Apps Received	Muncie MSA % Loans Originated	Muncie MSA Apps Received	Terre Haute MSA % Loans Originated	Terre Haute MSA Apps Received	Total of Six MSAs % Loans Originated	Total of Six MSAs Apps Received
American Indian/ Alaskan Native	N/A	0	0%	1	N/A	0	N/A	0	N/A	0	N/A	0	0%	1
Asian/Pacific Islander	50%	2	N/A	0	0%	1	0%	5	0%	1	N/A	0	11%	9
African American	100%	1	9%	11	0%	9	11%	18	0%	8	0%	3	8%	50
Hispanic	0%	4	10%	114	0%	8	14%	66	0%	2	N/A	0	10%	194
White	13%	132	8%	293	10%	269	11%	406	3%	189	7%	180	9%	1,469
Other	N/A	0	N/A	0	0%	4	0%	1	N/A	0	N/A	0	0%	5
Joint	100%	2	0%	6	0%	2	10%	10	0%	1	N/A	0	14%	21
Not Available	0%	3	20%	20	19%	21	24%	34	15%	13	0%	10	18%	101
Total	**15%**	**144**	**9%**	**445**	**10%**	**314**	**12%**	**540**	**4%**	**214**	**6%**	**193**	**9%**	**1,850**

Moderate, Middle and Upper Income Applicants (80% of Median or Greater)

Race/Ethnicity	Bloomington MSA % Loans Originated	Bloomington MSA Apps Received	Elkhart-Goshen MSA % Loans Originated	Elkhart-Goshen MSA Apps Received	Kokomo MSA % Loans Originated	Kokomo MSA Apps Received	Lafayette MSA % Loans Originated	Lafayette MSA Apps Received	Muncie MSA % Loans Originated	Muncie MSA Apps Received	Terre Haute MSA % Loans Originated	Terre Haute MSA Apps Received	Total of Six MSAs % Loans Originated	Total of Six MSAs Apps Received
American Indian/ Alaskan Native	N/A	0	N/A	0	N/A	0	N/A	0	0%	1	0%	1	0%	2
Asian/Pacific Islander	N/A	0	0%	1	0%	1	0%	4	0%	2	N/A	0	0%	8
African American	33%	3	0%	1	20%	15	13%	8	11%	9	25%	4	18%	40
Hispanic	0%	2	0%	13	33%	3	13%	8	N/A	0	0%	2	7%	28
White	5%	113	6%	126	7%	136	9%	233	5%	144	2%	132	6%	884
Other	N/A	0	N/A	0	0%	3	0%	2	N/A	0	N/A	0	0%	5
Joint	0%	3	25%	4	0%	2	0%	7	50%	2	20%	5	13%	23
Not Available	9%	11	33%	9	22%	9	0%	21	13%	8	10%	10	12%	68
Total	**6%**	**132**	**7%**	**154**	**9%**	**169**	**8%**	**283**	**6%**	**166**	**3%**	**154**	**7%**	**1,058**

Total Applicants

Race/Ethnicity	Bloomington MSA % Loans Originated	Bloomington MSA Apps Received	Elkhart-Goshen MSA % Loans Originated	Elkhart-Goshen MSA Apps Received	Kokomo MSA % Loans Originated	Kokomo MSA Apps Received	Lafayette MSA % Loans Originated	Lafayette MSA Apps Received	Muncie MSA % Loans Originated	Muncie MSA Apps Received	Terre Haute MSA % Loans Originated	Terre Haute MSA Apps Received	Total of Six MSAs % Loans Originated	Total of Six MSAs Apps Received
American Indian/ Alaskan Native	N/A	0	0%	1	N/A	0	N/A	0	0%	1	0%	1	0%	3
Asian/Pacific Islander	50%	2	0%	1	0%	2	0%	9	0%	3	N/A	0	6%	17
African American	50%	4	8%	12	13%	24	12%	26	6%	17	14%	7	12%	90
Hispanic	0%	6	9%	127	9%	11	14%	74	0%	2	0%	2	10%	222
White	9%	245	7%	419	9%	405	10%	639	4%	333	4%	312	8%	2,353
Other	N/A	0	N/A	0	0%	7	0%	3	N/A	0	N/A	0	0%	10
Joint	40%	5	10%	10	0%	4	6%	17	33%	3	20%	5	14%	44
Not Available	7%	14	24%	29	20%	30	15%	55	14%	21	5%	20	15%	169
Total	**11%**	**276**	**8%**	**599**	**10%**	**483**	**10%**	**823**	**5%**	**380**	**5%**	**347**	**8%**	**2,908**

Note: N/A means there were no applications received.
Median household income refers to the MSA's median household income.

Source: FFIEC HMDA Aggregate Reports, 2002, and BBC Research & Consulting.

Exhibit F-4 shows conventional loan denial rates during 2002 for the six MSAs and perhaps portrays more accurate denial rates, as there are more applications for most racial and ethnic groups. Among low-income applicants for conventional loans, American Indians/Alaska Natives had high denial rates of 64 percent and applicants where race was not available had a 47 percent denial rate. Slightly lower denial rates were found for African Americans (38 percent) and Hispanic (27 percent) applicants. Among higher income applicants, Hispanic applicants and applicants where race was not available had the highest denial rates of 20 percent each followed by African Americans (15 percent).

Exhibit F-4.
Conventional Home Mortgage Loan Denial Rates by Race/Ethnicity and Income, Indiana Small MSAs, 2002

Low Income Applicants (<80% of Median)														
Race/Ethnicity	Bloomington MSA		Elkhart-Goshen MSA		Kokomo MSA		Lafayette MSA		Muncie MSA		Terre Haute MSA		Total of Six MSAs	
	% Loans Originated	Apps Received	% Loans Originated	Apps Received	% Loans Originated	Apps Received	% Loans Originated	Apps Received	% Loans Originated	Apps Received	% Loans Originated	Apps Received	% Loans Originated	Apps Received
American Indian/ Alaskan Native	100%	1	50%	2	50%	2	100%	4	40%	5	N/A	0	64%	14
Asian/Pacific Islander	33%	9	14%	21	100%	1	11%	9	25%	4	17%	6	20%	50
African American	17%	6	35%	26	36%	11	44%	9	48%	23	37%	19	38%	94
Hispanic	0%	7	29%	123	0%	4	31%	68	14%	7	0%	3	27%	212
White	18%	583	16%	1,177	14%	661	14%	837	16%	562	20%	791	16%	4,611
Other	0%	7	50%	4	40%	5	0%	5	0%	4	0%	5	13%	30
Joint	50%	2	20%	10	29%	7	13%	15	0%	4	25%	4	19%	42
Not Available	46%	96	52%	208	42%	89	53%	134	43%	97	42%	122	47%	746
Total	**22%**	**711**	**22%**	**1,571**	**18%**	**780**	**20%**	**1,081**	**21%**	**706**	**23%**	**950**	**21%**	**5,799**

Moderate, Middle and Upper Income Applicants (80% of Median or Greater)														
Race/Ethnicity	Bloomington MSA		Elkhart-Goshen MSA		Kokomo MSA		Lafayette MSA		Muncie MSA		Terre Haute MSA		Total of Six MSAs	
	% Loans Originated	Apps Received	% Loans Originated	Apps Received	% Loans Originated	Apps Received	% Loans Originated	Apps Received	% Loans Originated	Apps Received	% Loans Originated	Apps Received	% Loans Originated	Apps Received
American Indian/ Alaskan Native	0%	2	0%	1	N/A	0	0%	2	0%	1	0%	2	0%	8
Asian/Pacific Islander	0%	25	0%	14	0%	10	0%	35	0%	8	0%	9	0%	101
African American	6%	16	36%	25	11%	28	10%	10	13%	30	9%	22	15%	131
Hispanic	0%	4	23%	44	25%	4	14%	22	0%	1	33%	6	20%	81
White	6%	1,048	6%	1,262	6%	824	5%	1,356	7%	926	9%	1,150	7%	6,566
Other	9%	11	14%	7	0%	4	8%	13	14%	7	18%	11	11%	53
Joint	0%	34	0%	34	20%	5	3%	34	21%	14	7%	14	4%	135
Not Available	9%	111	35%	105	14%	93	16%	150	22%	92	25%	133	20%	684
Total	**6%**	**1,251**	**9%**	**1,492**	**7%**	**968**	**6%**	**1,622**	**9%**	**1,079**	**11%**	**1,347**	**8%**	**7,759**

Total Applicants														
Race/Ethnicity	Bloomington MSA		Elkhart-Goshen MSA		Kokomo MSA		Lafayette MSA		Muncie MSA		Terre Haute MSA		Total of Six MSAs	
	% Loans Originated	Apps Received	% Loans Originated	Apps Received	% Loans Originated	Apps Received	% Loans Originated	Apps Received	% Loans Originated	Apps Received	% Loans Originated	Apps Received	% Loans Originated	Apps Received
American Indian/ Alaskan Native	33%	3	33%	3	50%	2	67%	6	33%	6	0%	2	41%	22
Asian/Pacific Islander	9%	34	9%	35	9%	11	2%	44	8%	12	7%	15	7%	151
African American	9%	22	35%	51	18%	39	26%	19	28%	53	22%	41	25%	225
Hispanic	0%	11	28%	167	13%	8	27%	90	13%	8	22%	9	25%	293
White	11%	1,631	11%	2,439	10%	1,485	8%	2,193	11%	1,488	14%	1,941	11%	11,177
Other	6%	18	27%	11	22%	9	6%	18	9%	11	13%	16	12%	83
Joint	3%	36	5%	44	25%	12	6%	49	17%	18	11%	18	8%	177
Not Available	26%	207	46%	313	27%	182	33%	284	33%	189	33%	255	34%	1,430
Total	**12%**	**1,962**	**16%**	**3,063**	**12%**	**1,748**	**12%**	**2,703**	**14%**	**1,785**	**16%**	**2,297**	14%	13,558

Note: N/A means there were no applications received.

Median household income refers to the MSA's median household income.

Source: FFIEC HMDA Aggregate Reports, 2002, and BBC Research & Consulting.

Reasons for denial. HMDA data also contain summary information on the reasons for denial by type of loan and applicant characteristics, which can help explain some of the variation in approval rates among applicants. Exhibits F-5 and F-6 show the reasons for denials of 2002 loan applications for government insured and conventional home purchase loans. The numbers in boldface type represent the most common reason for denial for each group of applicants.

Exhibit F-5.
Government Guaranteed Loans Reasons for Denial, Indiana Small MSAs, 2002

MSA	Bloomington MSA	Elkhart-Goshen MSA	Kokomo MSA	Lafayette MSA	Muncie MSA	Terre Haute MSA
Debt-to-Income Ratio	**13%**	**27%**	**26%**	**20%**	**24%**	**24%**
Employment History	4%	4%	3%	3%	0%	12%
Credit History	**40%**	**32%**	**47%**	**45%**	**52%**	**36%**
Collateral	4%	4%	1%	2%	0%	12%
Insufficient Cash	7%	0%	9%	6%	8%	8%
Unverifiable Information	2%	5%	1%	1%	4%	0%
Credit Application Incomplete	13%	7%	7%	13%	8%	0%
Mortgage Insurance Denied	0%	0%	0%	0%	0%	0%
Other	16%	21%	6%	9%	4%	8%
Total [(1)]	**45**	**56**	**70**	**95**	**25**	**25**

Note: [(1)] Institutions are not required to report reasons for loan denials. "Total" includes cases where multiple reasons were reported.
Source: FFIEC HMDA Aggregate Reports, 2002, and BBC Research & Consulting.

Exhibit F-6.
Conventional Loans Reasons for Denial, Indiana Small MSAs, 2002

MSA	Bloomington MSA	Elkhart-Goshen MSA	Kokomo MSA	Lafayette MSA	Muncie MSA	Terre Haute MSA
Debt-to-Income Ratio	**25%**	**22%**	**27%**	**20%**	**24%**	**19%**
Employment History	4%	4%	4%	4%	4%	4%
Credit History	**31%**	**37%**	**31%**	**31%**	**31%**	**40%**
Collateral	7%	5%	4%	8%	8%	11%
Insufficient Cash	3%	5%	4%	6%	11%	4%
Unverifiable Information	4%	3%	1%	4%	2%	3%
Credit Application Incomplete	4%	4%	10%	9%	2%	1%
Mortgage Insurance Denied	0%	0%	0%	0%	1%	0%
Other	**21%**	**19%**	**19%**	**18%**	**18%**	**18%**
Total [(1)]	**204**	**450**	**191**	**263**	**225**	**314**

Note: [(1)] Institutions are not required to report reasons for loan denials. "Total" includes cases where multiple reasons were reported.
Source: FFIEC HMDA Aggregate Reports, 2002, and BBC Research & Consulting.

As demonstrated in the exhibits, poor credit history is the major reason for application denials across the six MSAs. High debt-to-income ratios are another primary factor for government guaranteed loans and for conventional home purchase loans.

What do the data suggest? There are many reasons that loan approval rates may vary for applicants in the same income brackets – credit ratings, net worth, and income to debt ratios play a large role in the decision to deny or approve a loan. Without individual data about the applications analyzed previously, it is difficult to assess the presence of discrimination by race, ethnicity, or gender. Disparities in approval rates between racial and ethnic groups or genders are not definitive proof of housing discrimination; rather, the presence of disparities suggests the need for further inquiry. The data are also useful in determining what government sponsored programs might be needed to fill the gaps between what the private market is willing to provide and what is needed.

The HMDA data highlight areas where county and city governments can work to improve access to credit for citizens. As shown in Exhibits F-5 and F-6, high debt-to-income ratios and poor credit histories are the top reasons that credit is denied to citizens in the six MSAs. The data also show that most minority populations have higher denial rates than Whites for conventional loans. The denial rates for government guaranteed loans are more similar. Assuming the statistics for Statewide citizens are similar (data are not available at this geographic level), the State should invest in credit and homebuyer counseling programs to improve citizens' understanding of how to manage personal debt. The State should also work to ensure that minority populations are aware of government-guaranteed loan programs, which appear to better serve these populations than conventional loan programs.

Indiana Legislation

On March 18, 2004, the Indiana Home Owner Protection Act (HB 1229) and Property Tax Benefits and Study Commission (HB 1005) were signed into law by Governor Kernan.

HB 1229: The Indiana Home Owner Protection Act. HB 1229 will protect homeowners from lenders who target homeowners with overpriced loans that strip away equity. It limits certain predatory practices, and provides penalties for lenders who violate the law. Specifically the act:

- Restricts certain lending acts and practices;
- Establishes the homeowner protection unit in the office of the attorney general;
- Provides enforcement procedures for deceptive mortgage acts;
- Establishes a $3 mortgage recording fee;
- Requires the Indiana housing finance authority to provide homeownership training programs;
- Provides that certain provisions do not apply to certain financial institutions;
- Makes changes to the definition of a high-cost home loan; and
- Prohibits certain lending practices.

The Coalition for Responsible Lending estimates that U.S. borrowers lose $9.1 billion annually to predatory lending, and that predatory lending practices cost Indiana residents $150 million a year.

HB 1229 as passed is an approach negotiated by consumer groups including AARP and the Indiana Association for Community Economic Development, and industry groups including the Indiana Bankers Association, the Community Bankers Association, the Credit Union League, the Mortgage Bankers Association, the Consumer Finance Association, and the Indiana Mortgage Brokers.

The legislation identifies certain practices that are so inherently abusive that they are prohibited for all loans. In addition, the legislation limits certain additional practices when they are used in a "high-cost" home loan. This is because "high-cost" home loans with high fees or high interest rates have greater potential to be harmful to customers.

A high-cost home loan is defined in HB 1229 as a home mortgage loan that exceed either:

- The interest rate threshold established by federal law (8 points above the yield on Treasury bills with comparable term for first liens; 10 points above for subordinate liens); or
- Point and fees that exceed 5 percent of the total loans amount for loans $40,000 and above, and 6 percent of the total loan amount for smaller loans.

Under the Act, the following acts and practices are prohibited for all home loans:

- Financed single-premium credit life insurance and debt cancellation agreements;
- Recommendation of default;
- Flipping a below-market rate loan (such as a Habitat loan) into a high-cost loan;
- Debt acceleration at the sole discretion of the creditor;
- Charging the consumer a fee to receive a balance due statement;
- Deceptive acts; and
- Discrimination on the basis of race, color, religion, national origin, sex, marital status or age.

Exhibit VI-6.
Housing Needs, Priorities for FY2004

Source:
Indiana Housing Finance Authority.

	Priority Need Level	
Priority Housing Needs	**Percentage**	**Need Level**
Renter		
Small and Large Related	0-30%	High
	31-50%	High
	51-80%	Medium
Elderly	0-30%	High
	31-50%	High
	51-80%	Medium
All Other	0-30%	High
	31-50%	High
	51-80%	Medium
Owner		
Owner Occupied	0-30%	High
	31-50%	High
	51-80%	Medium
Homebuyer	0-30%	Medium
	31-50%	High
	51-80%	High
Special Populations	0-80%	High

ADDI Funds

IHFA will implement the following activities in conjunction with administration of the ADDI grant.

Targeted outreach. IHFA will make the Indiana Manufactured Housing Association and the Indiana State National Association of Housing and Redevelopment Officials (NAHRO) aware of the ADDI program and how members of their respective organizations can obtain additional information to educate their clients on IHFA programs and how to join the IHFA List-Serve.

In addition, IHFA will require recipients of homeownership counseling funds to conduct targeted outreach to residents and tenants of public and manufactured housing and other families assisted by public housing agencies. As part of their agreement with IHFA, recipients must agree to complete these marketing initiatives. To ensure compliance with this requirement, IHFA will include this activity in compliance monitoring.

Homeownership stability. To ensure that families receiving ADDI funds are suitable to undertake and maintain homeownership, clients receiving ADDI funding will be required to successfully complete a homeownership training program. It is strongly recommended that clients participated in a face to face or classroom course given by a HUD approved counselor.

Under the Act, the following acts and practices are prohibited for high-cost loans:

- Financing of fees or charges;
- Excessive prepayment penalties;
- Financing of life or health insurance;
- Loan flipping;
- Balloon payments;
- Negative amortization;
- Increased interest rate after default;
- Advance payments made from loan proceeds;
- Lending without a referral for homeownership counseling;
- Lending without due regard to repayment ability;
- Certain predatory home-improvement contracts;
- Modification or deferral fees;
- Lending without full disclosure of the risks of high-cost loans;
- Mandatory arbitration.

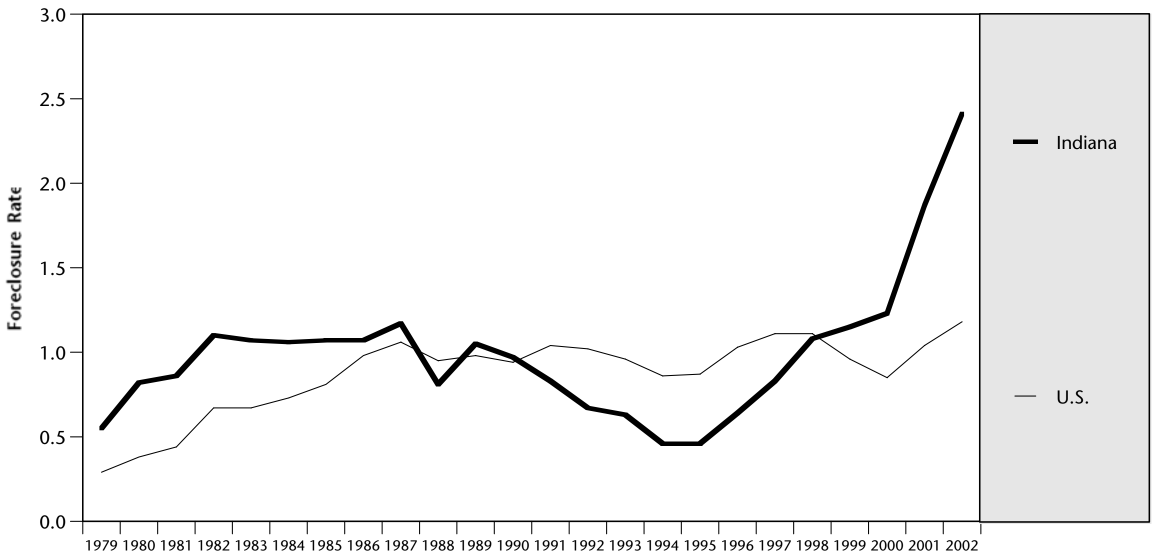
HB 1229 is similar to the federal Home Ownership and Equity Protection Act (HOEPA). Like HB 1229, HOEPA creates special requirements applicable to high-cost loans. However, the HOPEA thresholds for high-cost loans are too high to reach the bulk of high-cost loans. According to the data from the Office of Thrift Supervision, only one percent of high-cost loans were covered by HOEPA before October 1, 2002. It is not known how many more loans will be covered under recent changes to HOEPA, but estimates were an additional 4 to 5 percent. The simple fact is that the vast majority of predatory loans being made today are perfectly legal under HOEPA guidelines.

HB 1005: Property Tax Benefits and Study Commission. HB1005 contained various property tax matters. Among its provisions is a requirement that at the closing of mortgage the closing agent is required to give the homeowner a state-prepared statement of available property tax credits that may be filed for. The required disclosure form will be prepared by the state and made available to lenders and title companies.

Mortgage Foreclosure Study

According to Mortgage Banker's Association, Indiana's foreclosure rate was more than double the nation's at the end of the forth quarter in 2002. The national foreclosure rate was 1.18 percent compared to Indiana's rate of 2.41 percent. Indiana has not historically been a state with high delinquency rate. The Indiana Mortgage Bankers Association (IMBA) reported Indiana had a lower foreclosure rate that the national average through the 1990s. The following exhibit shows how historically Indiana's foreclosure rate compares to that of the nation.

Exhibit F-7.
Mortgage Foreclosure Rates for Indiana and the Nation, 1979 to 2002



Note: All loans in foreclosure are at the end of the 4th quarter for each year.
Source: Mortgage Bankers Association.

A study was commissioned by five groups: the Metropolitan Indianapolis Board of REALTORS®, the Indiana Association of REALTORS®, the Indiana Builders Association, the Builders Association of Greater Indianapolis, and the Indianapolis Neighborhood Housing Partnership. It was conducted by the National Association of REALTORS® on behalf of all five groups and released in April 2003.[2]

This study reported possible causes of foreclosure related to the job market condition, first time homebuyers, predatory lending, government backed loans, high loan-to-value ratio, along with other factors. The following is a summary of the report's findings.

Job Market Condition. The study reported that Indiana's job losses began before the rest of the country. In January 2003, total state payroll employment was 2,803,300, a decrease of 4.4 percent or 131,100 jobs from peak employment nearly 3 years earlier (May 2000). The 4.4 percent decline was the second highest in the nation. The manufacturing sector collapse helped induce the nation's economic recession and Indiana had one of the highest percentages (22 percent) of workforce participation in the manufacturing industry compared to the national average of 14.5 percent.

First Time Home Buyers. According to the 2000 Census, Indiana had 74.9 percent of its residents who were homeowners, which is much higher compared to 67.4 percent of residents in the United States. This was one of the highest homeownership rates in the country. From 1990 to 2000, the national homeownership rate increased by 2.3 percent, while it increased by 4.4 percent in Indiana. Relatively low prices combined with low unemployment have contributed to Indiana's high homeownership rate.

[2] *Rising Foreclosure Rates in Indiana: An Explanatory Analysis of Contributing Factors,* Study conducted by the National Association of REALTORS®, March 2003.

Since Indiana outpaced the nation in homeownership, it implies there may have been an excess of home buying. The report suggested that anytime the homeownership rate is increased, it means there are new homeowners who had previously been closer to the margin of affordability. The lower mortgage rates allowed more people to be able to own homes.

Predatory Lending. A January 2003 news release by the Indiana Mortgage Bankers Association reported, predatory lending was not the cause of Indiana's high mortgage foreclosure rate, as is commonly reported. The Mortgage Bankers Association reported that less than one-half of one percent of all loans covered in its 2002 study were sub-prime loans. Additionally, the Mortgage Area Research Institute[3] found that Indiana ranked in the lowest level for the category of predatory lending.

Government Backed Loans. There are two government programs that provide loan guarantees to lenders: FHA loans (allow for someone who may have had a few credit problems to obtain mortgage financing) and VA loans (are provided to veterans of the armed forces). For both of these loans the lender does not bear the risk when foreclosure occurs.

Research has revealed that first-time homebuyers are more likely to default on mortgages than repeat homebuyers are. FHA loans have a higher concentration of first-time homebuyers who have a low down payment, and are in lower-income areas, compared to the conventional loan market. Mortgage Bankers data revealed that VA loans were more then three times as likely to foreclose than conventional loans and FHA loans were nearly five times as likely to foreclose than conventional loans.

From 1997 to 1999 Indiana's share of FHA loans were similar to national figures and in 2000, there were a noticeably higher number of FHA loans obtained in Indiana. In 2001, Indian's share of FHA loans was 25 percent, which was higher than the national share (17 percent). The report concluded that more than half of the difference in foreclosure rates between Indiana and the U.S. could be attributed to the higher composition of higher risk loans, i.e., FHA loans. Furthermore, the sharp cut back in jobs was likely to have contributed greatly in changing the mix of FHA and conventional loans.

High Loan-to-Value Ratio. According to the Federal Housing Finance Board, the Indiana loan-to-value (LTV) ratio was 80.1 percent in 2002, which was higher than the national average of 75.1 percent. Almost one-third of the conventional loans in Indiana had an LTV greater than 90 percent, compared to only nine states that had a higher percentage with LTVs greater than 90 percent. High LTVs may increase the likelihood of default because there is a greater chance the borrower will be in negative equity position early in the life of the loan.

A HUD report in 2002 pointed out Indianapolis was forth in the usage of down payment assistance and that the default rate for loans using down payment assistance were higher than similar loans not using down payment assistance.

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[3] August 2000 report.

If home values appreciate quickly, LTV ratios are less of an issue when considering foreclosure. According to the Office of Federal Housing Enterprise Oversight, Indiana ranked low in comparison to other states (49th) in one-year price growth. Therefore, the continual low appreciation of home price in Indiana is one of the reasons for higher LTV loans and the resulting higher foreclosure rate.

Other Factors. According to the Federal Housing Finance Board, in 2002 Indiana residents paid the highest mortgage rate (6.67 percent) in comparison to the rest of the county. The national average was 6.44 percent. Indiana borrowers also paid higher initial fees of 0.53 percent compared to 0.46 percent of the rest of the country.

A reason for the high mortgage interest rate was that Indiana borrowers pay less on their down payment. However, considering there were 13 other states with higher LTVs than Indiana, this reason alone cannot justify the high interest rate.

Recent Legal Cases

As part of the fair housing appendix, recent legal cases were reviewed to determine significant fair housing issues and trends in Indiana. Searches of the Department of Justice case databases found two cases involving the Fair Housing Act in Indiana. This section summarizes the issues in each case.

United States of America v. Edward Rose & Sons, Inc, et al. In February 2003, the Court issued an order granting the United States' a preliminary injunction to enjoin the defendants from occupying or further constructing 19 apartment buildings at Westlake Apartments in Belleville, Michigan and Lake Pointe Apartments in Batavia, Ohio, until they could be redesigned or retrofitted to be brought into compliance with the Fair Housing Act.

The two complaints filled allege Edward Rose & Sons, several affiliate companies, as well as individual architects and architectural firms, have engaged in a pattern or practice of discrimination against persons with disabilities. They have failed to include accessible features required by the Fair Housing Act and the Americans with Disabilities Act in a number of apartment complexes it developed in Indiana, Michigan, Ohio, Wisconsin, Illinois and Virginia.

The United States alleges that approximately 4,050 ground floor units in 42 apartment complexes do not have accessible entrances, kitchens and bathrooms, along with other building features. Edward Rose & Sons is one of the largest multifamily developers in the nations. Fifteen of the 42 apartment complexes sited in this case are located in Indiana.

United States of America v. City of Lake Station. In December 1998, the United States filed a complaint claiming the City of Lake Station, Indiana violated the Fair Housing Act by refusing to permit the development of a subdivision of affordable, owner-occupied, single-family tract homes. The U.S. contends that the refusal to authorize the construction was based on fears that the residents of the subdivision would come from neighboring Gary, whose population is overwhelmingly African American. Despite Lake Station's proximity to Gary, only 0.2 percent of Lake Station's population is African American.

The consent ordered the City to permit the construction of the subdivision, called Timbercreek. Under the agreement, the City will also:

- Amend its ordinances to ensure that all Timbercreek homes qualify for a significant, six-year, phased-out property tax abatement;
- Waive standard building permit fees, occupancy permit fees and inspection fees for Timbercreek homes;
- Waive water meter installation fees on the first four homes;
- Pay LCEDC $10,000 to market Timbercreek throughout Northwest Indiana;
- Enter into a $5,00 per year services contract with Northwest Indiana Open Housing Center for the next five years; and
- Send City officials to fair housing training.

Fair Housing Education

In December 2003, the Indiana Housing Finance Agency awarded $116,000 of HOME Administrative Subrecipient Agreement Awards to support the fair housing activities of the Indiana Civil Rights Commission (ICRC). This was the third award to ICRC for these types of activities. In 2000 and 2002 awards to ICRC totaled $201,309 in HOME funds.

IHFA periodically considers not-for-profit organizations or public agencies to serve as a subrecipient in administering a portion of the State's allocation of federal HOME activities. These activities are to have a statewide impact and serve to further IHFA's efforts in administering HOME program and other related areas.

The funds will be used to fund statewide activities to help alleviate the effects of housing discrimination in Indiana. The ICRC's mission is to enforce Indiana's civil rights laws and provide quality education and service to the public in an effort to ensure equal opportunity to all Hoosiers and visitors to the State. Activities will include:

- Conducting trainings;
- Developing a training video;
- Promoting awareness of fair housing issues through media such as newspapers, radio, and television;
- Printing educational materials in English and Spanish;
- Developing and maintaining a Web site;
- Participating as an exhibitor at conferences and other events; and
- Postage.